

**DISCOVERY MINES  
LIMITED**

**1978**

**ANNUAL REPORT**

# **DISCOVERY MINES LIMITED**

## **OFFICERS**

J. C. BYRNE  
*President and Managing Director*

D. R. CROMBIE  
*Vice-President, Operations*

W. STEUERMAN  
*Secretary-Treasurer*

## **DIRECTORS**

J. C. BYRNE, Toronto  
President and Managing Director, Rayrock Resources Limited

D. R. CROMBIE, Toronto  
Vice-President, Operations  
Rayrock Resources Limited

C. M. EVANS, Calgary  
Executive Vice-President  
Ashland Oil Canada Limited

G. E. O'SHAUGHNESSY, Toronto  
Executive Assistant  
Rayrock Resources Limited

W. J. WHELAN, Calgary  
President  
Ashland Oil Canada Limited

## **EXECUTIVE OFFICE**

Suite 1011, 2200 Yonge Street, Toronto, Canada

## **TRANSFER AGENTS AND REGISTRARS**

CROWN TRUST COMPANY, Toronto

## **BANKERS**

ROYAL BANK OF CANADA, Bay and Temperance Branch, Toronto

## **AUDITORS**

COOPERS & LYBRAND, Toronto

## **SOLICITORS**

CAMPBELL, GODFREY & LEWTAS  
Toronto

## **ANNUAL AND GENERAL MEETING**

April 23, 1979, 11:00 a.m., Confederation Room No. 3  
Royal York Hotel, Toronto, Canada



## Directors' Report to the Shareholders

To the Shareholders:

In the latter part of 1978, Discovery purchased modest interests in two oilfields. Additional more substantial participations in low risk oil and gas ventures are planned for the current year. Your Company's gold properties are the subject of some discussion by parties interested in possible financing, a result of the escalating gold price. Discovery's share holdings in Rayrock Resources had a market value of \$1,720,000 at year end.

Effective September 1, 1978, Discovery purchased interests in the Willey oilfield, Southwest Ontario, and in the Redwater oilfield in Alberta. The purchase price was satisfied by the issue of 350,000 common shares of Discovery, and a promissory note for \$82,000 due on December 31, 1979, bearing an interest rate of 10 percent. Combined net income from the two interests has been approximately \$70,000 per annum.

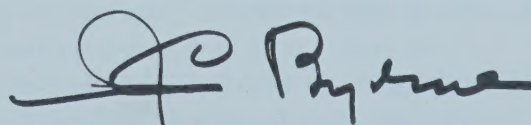
Please refer to the narrative section of this report for a detailed description of Discovery's interests in oil production and in gold prospects.

There was substantial market appreciation in Discovery's share holdings of Rayrock Resources during 1978. Rayrock's gas reserves are estimated to be in excess of 5 billion cubic feet. Recoverable oil reserves are 840,000 barrels. Reserves are expected to show an appreciable increase in 1979. Mining participation includes direct and indirect net profit interests in the new A Zone of Norita Quebec Mines which zone contains in excess of 2 million tons of excellent grade copper-zinc-silver-gold ore and additional reserves can be anticipated. A production decision is imminent for the Pinson gold project in Nevada (Rayrock — 20 percent interest). The Company also participates in mining exploration syndicates in Canada, the United States and in Spain. Rayrock's working capital was \$1,566,000 and the market value of its investments totalled \$2,738,000 at the year end.

To provide for flexibility in the way that equity capital may be raised for future participations in oil and gas and in mining, the Directors of Discovery have been advised, not only to create additional common shares but to create a class of preferred shares. Accordingly, the Directors of Discovery have passed a Special Resolution which is reproduced in full in the Information Circular which provides for the increase in the common share capital of Discovery by two million shares and creates a class of two million preferred shares of \$1.00 each issuable in series. The Directors are authorized in the Special Resolution to determine the attributes of each series including the first series as, when and if the Directors think it advisable for Discovery to obtain additional financing through the issue of these preferred shares.

Subsequent to the year end Discovery purchased part of the large block of shares of Rayrock Resources held by Ashland Oil Canada Limited. The balance of this block has been distributed to other companies. This purchase was financed by a bank loan. As a result, Discovery now holds 1,340,000 shares of Rayrock Resources Limited which represents the control block, being 29.7% of Rayrock's issued capital.

On behalf of the Board of Directors



President and Managing Director

Toronto, Canada  
March 20, 1979



# DISCOVERY MINES LIMITED

## Oil Production

### WILLEY CAMBRIAN UNIT NO. 1

The Willey Field, located in Elgin County, Southwest Ontario, was discovered and placed into production in 1965. In 1972 a waterflood was installed and at present there are six producing wells and seven injection wells. In 1977 it was estimated that remaining recoverable reserves for the unit were 540,000 barrels, with the final year of operation being 1992. Total production for the field in 1978 was 52,882 barrels. Discovery's working interest is 10.684 percent.

The Willey Unit is operated by International Utilities Petroleum Corporation.

### REDWATER UNIT, ALBERTA

The Redwater D-3 Pool is operated by Imperial Oil Ltd. A pressure maintenance scheme, using water injection, was commenced in November 1973. Total production for the pool is of the order of 70,000 barrels oil per day.

The pool is divided into 40 Tracts. Discovery owns a 3.0 percent working interest in part of Tract 33 and a 1.2 percent working interest in part of Tract 35.

Over the past four years, net income from the above working interests has averaged some \$37,000 per annum.

## Gold Properties

### CAMLAREN PROPERTY

The property consists of 21 claims covering an island in Gordon Lake about 60 miles northeast of Yellowknife, Northwest Territories. Discovery Mines has a 66⅔ percent direct interest and Camlaren Mines (67 percent owned by Discovery) a 33⅓ percent interest.

On the property, gold-bearing quartz veins occupy the crest and flank of a tightly compressed anticlinal fold and follow the plunge of the folding at 55 degrees to the northeast. Along the flank, which strikes N35°E, and is vertical, the veining is generally narrow and rarely exceeds four feet. The Hump Vein, on the crest of the fold, however, has an area of about 350 square feet and shows very little change in size to a vertical depth of 800 feet.

Gold was discovered on the property in 1936, and a 350 foot shaft and 2,400 feet of drifting were completed. In 1962-63 Discovery mined and milled 13,000 tons from the upper levels. Production results showed an average grade of 1.13 ounces gold per ton plus some silver.

In 1974 Discovery deepened the shaft to 838 feet. The Hump Vein was developed by drifting on the 800 foot level. Sampling of the vein in the drift over a length of 135 feet averaged 0.93 ounces gold per ton across 3.0 feet. The Hump Vein has an area of 330 square feet from which muck samples averaged 0.91 ounces gold per ton. Diamond drilling indicated that the Hump Vein continues to a depth of 1,000 feet and is open to further extension. Reserves to a depth of 1,000 feet, diluted to a minimum five foot mining width, are 56,000 tons averaging 0.62 ounces gold per ton, including 5,697 tons averaging 0.42 ounces gold per ton on the surface stockpile. Gold at \$225.00 per ounce would mean \$139.50 per ton of ore at Camlaren.

### LAFORMA PROPERTY

Discovery has an 81.4 percent interest in 32 claims held by mining lease on the southeast slope of Mount Freegold, 41 miles by road west of Carmacks, Yukon Territory.

Gold mineralization is found in quartz veining and sulphides within strong fault zones in granodiorite. All work has been confined to the G-3 Zone which was explored by adits over a length of 1,200



# DISCOVERY MINES LIMITED

feet on the No. 2 Level and 1,400 feet on the No. 4 Level, a vertical range of approximately 450 feet. The G-3 structure is a braided shear zone up to 40 feet wide with mineralization occurring along any of the shear strands. On the 4th Level a continuous length of 370 feet in the north ore shoot averaged 1.12 ounces gold per ton across a 4.4 foot sampled width. Diamond drilling under this section indicated that ore grade mineralization continues for at least 400 feet below the level. Above the No. 4 Level the G-3 Zone is estimated to contain 68,546 tons grading 0.44 ounces gold per ton diluted to a 5.5 foot mining width.

## COLOMAC PROPERTY

Discovery, through a subsidiary, owns a 50 percent interest in 71 claims at Baton Lake, 137 miles north-northwest of Yellowknife, N.W.T. Gold mineralization occurs in quartz albite porphyry dykes.

Two mineralized dykes have been located on the property with the most important being the Colomac dyke, which has a length of about 20,000 feet. The dyke width varies from 70 to 200 feet and averages about 100 feet. In 1945-46 exploration included 47,000 feet of diamond drilling, 2,500 feet of underground headings, and bulk sampling. Three zones of gold mineralization of possible economic interest were outlined. A 3,000 foot section of Zone No. 2 where the dyke averages 160 feet in width has been estimated to contain 13,000,000 tons averaging 0.085 ounces gold per ton to a depth of 600 feet. In 1974, Cominco Limited, under an option agreement completed 9,443 feet of BQ drilling in 20 holes which obtained similar results. Part of the tonnage is amenable to open pit mining.

## Other Properties

### MATAGAMI AREA, QUEBEC

Discovery has a 5 percent net profits royalty interest in a 37 claim property that adjoins the west boundary of the Norita Mine where Noranda Mines is developing a new deep orebody. Extensive surface diamond drilling in the past located widespread low grade copper mineralization over a strike length of 5,000 feet on this property which is controlled by Noranda Explorations Ltd. Further exploration is planned for this property.

## Some Gold Facts

- Gold has appreciated substantially in terms of currencies over the past several years.
- No central banks (except U.S.A.) have sold gold for at least ten years.
- Europe's central banks hold half of the world's gold reserves which are as follows:

European Gold Reserves .....	500 mill. ozs.
U.S.A. Gold Reserves .....	275 mill. ozs.
IMF Gold Reserves .....	125 mill. ozs.
Various countries in small amounts .....	100 mill. ozs.
Total	1 bill. ozs.

- European monetary union with more than 400 million ounces of gold must rely on gold to create reserves which have been announced at \$30 billion plus. The European Monetary Unit gives every indication of becoming the world's most wanted currency.
- U.S.A. had to offer gold to satisfy Europe's demand to protect the dollar. The U.S. had to retreat from selling 1,500,000 ounces of good-delivery gold (99.5%) substituting 500,000 ounces of mostly old coin melt (90% gold) because the U.S. has less than 60 million ounces in good-delivery gold.

# DISCOVERY MINES LIMITED

## *Consolidated Balance Sheet as at December 31, 1978*

ASSETS		1978	1977
		\$	\$
<b>Current assets</b>			
Cash .....		32,069	49,205
Accounts receivable and prepaid expenses .....		35,361	19,058
		<u>67,430</u>	<u>68,263</u>
<b>Amounts due on sale of mine equipment</b> .....		12,500	25,000
<b>Long-term investments</b> (notes 1(b) and 2) .....		<u>1,181,867</u>	<u>1,332,293</u>
<b>Mining properties</b> (notes 1(c) and 3)			
Mining claims .....		342,615	342,616
Furniture and equipment .....		745	931
Deferred exploration and development expenditures .....		<u>1,113,730</u>	<u>1,113,600</u>
		<u>1,457,090</u>	<u>1,457,147</u>
<b>Oil and gas properties</b> (note 4) .....		282,437	—
		<u>3,001,324</u>	<u>2,882,703</u>
LIABILITIES			
<b>Current liabilities</b>			
Bank indebtedness (note 5) .....		100,000	160,000
Accounts payable and accrued liabilities .....		10,147	13,299
Due to Rayrock Resources Limited .....		<u>194,074</u>	<u>148,998</u>
		304,221	322,297
<b>Minority interest</b> .....		<u>41,073</u>	<u>41,653</u>
		<u>345,294</u>	<u>363,950</u>
SHAREHOLDERS' EQUITY			
<b>Capital stock</b> (note 6)			
Authorized —			
4,000,000 shares of no par value			
Issued and fully paid —			
3,538,773 shares (1977 — 3,188,773 shares) .....		3,398,773	3,188,773
<b>Contributed surplus</b> .....		506,774	506,774
<b>Deficit</b> .....		<u>(1,249,517)</u>	<u>(1,176,794)</u>
		<u>2,656,030</u>	<u>2,518,753</u>
Signed on behalf of the Board		<u>3,001,324</u>	<u>2,882,703</u>
J. C. BYRNE, Director			
G. E. O'SHAUGHNESSY, Director			



# DISCOVERY MINES LIMITED

## Consolidated Statement of Operations and Deficit

For the Year Ended December 31, 1978

	1978 \$	1977 \$
<b>Income</b>		
Revenue from petroleum operations .....	47,055	—
Investment income .....	1,709	—
Gain on sale of fixed assets .....	10,365	26,453
Gain on sale of investments .....	35,316	4,907
	<u>94,445</u>	<u>31,360</u>
<b>Expenses</b>		
Cost of petroleum production .....	23,723	—
Property maintenance .....	—	4,083
Head office expenses .....	18,905	20,998
Bank interest .....	15,549	15,638
Depreciation and amortization .....	9,749	—
	<u>67,926</u>	<u>40,719</u>
Gain (loss) before the undernoted items .....	26,519	(9,359)
Share of gain (loss) determined by the equity method .....	1,517	(738)
Gain (loss) before extraordinary item .....	28,036	(10,097)
Extraordinary item (note 10) .....	(100,759)	—
Loss for the year .....	72,723	10,097
Deficit — beginning of year .....	1,176,794	1,166,697
Deficit — end of year .....	<u>1,249,517</u>	<u>1,176,794</u>
Earnings per share before extraordinary item .....	\$0.01	\$ —
Loss per share for the year .....	<u>\$0.02</u>	<u>\$ —</u>

# DISCOVERY MINES LIMITED

## Consolidated Statement of Changes in Financial Position

For the Year Ended December 31, 1978

	1978 \$	1977 \$
<b>Source of working capital</b>		
Proceeds on issue of treasury stock (note 6) .....	210,000	—
Proceeds on sale of fixed assets .....	10,365	36,551
Proceeds on sale of investments .....	86,204	28,296
Current portion of amounts due on sale of mine equipment .....	12,500	—
	<u>319,069</u>	<u>64,847</u>
<b>Use of working capital</b>		
Current operations (note 9) .....	9,413	39,969
Advances to Avoca Mines Canada Limited .....	283	10,968
Development expenditures — deferred .....	130	235
Increase in amounts due on sale of mine equipment .....	—	25,000
Purchase of oil and gas properties (note 4) .....	292,000	—
	<u>301,826</u>	<u>76,172</u>
<b>Decrease (increase) in working capital .....</b>	<b>(17,243)</b>	<b>11,325</b>
<b>Working capital deficiency — beginning of year .....</b>	<b>254,034</b>	<b>242,709</b>
<b>Working capital deficiency — end of year .....</b>	<b><u>236,791</u></b>	<b><u>254,034</u></b>

### AUDITORS' REPORT TO THE SHAREHOLDERS

We have examined the consolidated balance sheet of Discovery Mines Limited as at December 31, 1978 and the consolidated statements of operations and deficit and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the company as at December 31, 1978 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Toronto, Canada  
March 7, 1979

COOPERS & LYBRAND  
Chartered Accountants



## Notes to Consolidated Financial Statements

### FOR THE YEAR ENDED DECEMBER 31, 1978

#### 1. ACCOUNTING POLICIES

(a) Basis of consolidation

The consolidated financial statements include the accounts of the company and its subsidiaries, Camlaren Mines Limited and Botha Lake Mining Corporation Limited. The accounts of a subsidiary company, Avoca Mines Canada Limited, have not been consolidated herein because the company is currently being supported by the government of Ireland and increases in equity are not likely to accrue to the parent company. Investments in significantly influenced companies are accounted for by the equity method.

(b) Long-term investments

The investment in shares of significantly influenced companies is carried at cost adjusted by the company's share of their earnings or losses since significant influence was obtained.

Other long-term investments are written down when there is evidence that their inherent worth has declined below their carried value.

(c) Deferred exploration and development expenditures

These expenditures are deferred until such time as they are written off against production from the property to which they apply or until the claims are sold or otherwise disposed of. Expenditures made in the general search for minerals are normally charged to expense in the year incurred.

#### 2. LONG-TERM INVESTMENTS

	1978	1977
	\$	\$
(a) This item comprises: .....		
Investment in companies accounted for by the equity method —		
Shares (notes 1(b) and 2(b)) .....	11,515	10,578
Debentures .....	1	1
	11,516	10,579
Other investments — at cost —		
Shares (notes 1(b) and 2(c)) .....	1,170,351	1,221,238
Advances to Avoca Mines Canada Limited and its subsidiary .....	—	100,476
	<u>1,181,867</u>	<u>1,332,293</u>

(b) The quoted market value of the shares in companies accounted for by the equity method is nil (1977 — \$194,891). During the year, a portion of an investment which was formerly accounted for by the equity method was sold. The remaining shares are now considered to be a portfolio investment and are included in other investments.

(c) Other investments include listed shares carried at a cost of \$1,170,351 with a quoted market value of \$1,719,500 (1977 — \$1,220,537 and \$1,316,715 respectively).

(d) The quoted market values referred to above do not necessarily represent the realizable value of these holdings which may be more or less than that indicated by market quotations.

# DISCOVERY MINES LIMITED

## 3. MINING PROPERTIES

MINING PROPERTIES

	1978 \$	1977 \$		
(a) Mining claims were acquired for cash and shares of capital stock as valued by the directors of the applicable company — at cost, less amounts written off:				
32 claims Whitehorse Yukon Territory .....	69,312	69,312		
27 claims Discovery N.W.T. ....	1	1		
21 claims Gordon Lake Area N.W.T. ....	273,300	273,300		
Sundry .....	2	3		
	<u>342,615</u>	<u>342,616</u>		
(b) The amounts shown for mining properties represent costs to date, less amounts written off, and are not intended to reflect present or future values.				
(c) Deferred exploration and development expenditures (note 1(c)):				
	Balance December 31, 1977 \$	Expenditure during year \$	Written off \$	Balance December 31, 1978 \$
Camlaren Project .....	<u>1,113,600</u>	<u>130</u>	<u>—</u>	<u>1,113,730</u>
(d) The ultimate realization of the company's investment in mining properties and deferred exploration and development expenditures is dependent upon the availability of financing and the development of successful mining operations.				

## 4. OIL AND GAS PROPERTIES

Petroleum and natural gas leases were acquired from Rayrock Resources Limited during the year as follows:

	\$
For shares (note 6(b)) .....	210,000
By issue of a promissory note due on December 31, 1979 with an interest rate of 10% per annum .....	82,000
	<u>292,000</u>
Less: Amortization .....	9,563
	<u>282,437</u>

Amortization is charged partly on the unit of production method and partly on a straight-line basis over a period of 144 months.

## 5. BANK INDEBTEDNESS

The bank has been given a general assignment of book debts as collateral for bank indebtedness.

## 6. CAPITAL STOCK

- During the year the issued and unissued shares of the corporation were converted from shares of a par value of \$1.00 each to shares of no par value.
- During the year 350,000 shares were issued for an amount of \$210,000 (note 4).



# DISCOVERY MINES LIMITED

## 7. REMUNERATION OF DIRECTORS AND SENIOR OFFICERS

- (a) Directors and senior officers, as defined in the Business Corporations Act (Ontario), received direct remuneration in the year ended December 31, 1978 of \$2,500 (1977 — \$3,500).
- (b) Rayrock Resources Limited pays substantially all the remuneration of directors and senior officers of the company and other associated companies, and is reimbursed by these companies for their proportionate share thereof.

## 8. CONTINGENT LIABILITY

The company has guaranteed that it will be responsible for any currency exchange differences, based on 1973 rates, that may arise from the payment in commercial French francs of a liability of approximately \$240,000 of Avoca Mines Limited.

## 9. USE OF WORKING CAPITAL IN CURRENT OPERATIONS

	1978 \$	1977 \$
Loss (earnings) before extraordinary item .....	(28,036)	10,097
Items not affecting working capital —		
Depreciation and amortization .....	(9,749)	—
Gain on sale of investments .....	35,316	4,907
Gain on sale of fixed assets .....	10,365	26,453
Share of gain (loss) determined by the equity method .....	1,517	(738)
Other .....	—	(750)
	<u>9,413</u>	<u>39,969</u>

## 10. EXTRAORDINARY ITEM

	1978 \$	1977 \$
Write-down of advances to Avoca Mines Canada Limited and its wholly-owned subsidiary, Avoca Mines Limited of Ireland .....	<u>100,759</u>	<u>—</u>

## 11. INCOME TAXES

- (a) The company has approximately \$1.8 million of deferred exploration and development expenditures available for income tax purposes which may be applied against income of future periods.
- (b) The company has losses carried forward for income tax purposes of approximately \$199,000 which expire as follows:

	\$
1981 .....	77,000
1982 .....	<u>122,000</u>
	<u>199,000</u>

## 12. SUBSEQUENT EVENT

Subsequent to the year-end, the directors approved the purchase of a portion of the block of shares of Rayrock Resources Limited offered for sale by Ashland Oil Canada Limited, up to a maximum of 575,000 shares, at a price of \$1.80 per share. The acquisition will be financed by a demand bank loan against which Rayrock shares will be pledged as collateral.

